

Nursing Homes

Reimbursement Methodology
and Bed Capacity

Introduction

- What is the nursing home reimbursement methodology?
- What is the occupancy rate?
- Why is a low occupancy rate harmful?
- What policies tend to promote higher occupancy rates?
- What policies tend to promote lower occupancy rates?
- Potential Action for the Committee to Consider

What is the nursing home
reimbursement methodology?

What is the nursing home reimbursement methodology?

- The Bureau of Coverage and Reimbursement Policy (DOH) is responsible for the calculation of rates for all Medicaid providers.
- Each fiscal year, the Bureau allocates nursing home funding based on the approved methodology established in the Medicaid State Plan.
- A daily reimbursement rate is calculated for each nursing facility
 - Average daily rate of \$150.20 (July 1, 2007 to September 30, 2007)
- There are three components that make up the daily reimbursement rate for nursing homes:
 - Flat rate component
 - Property component
 - Case mix component

What is the nursing home reimbursement methodology?

- Flat Rate Component
 - Based on costs that all facilities incur such as:
 - laundry
 - housekeeping
 - dietary
 - Every entity receives the same amount
 - Currently, about 28% of the daily rate.

What is the nursing home reimbursement methodology?

- Property Component
 - Based on property related costs of the facility
 - Two parts:
 - Fair rental value based on the cost index for Salt Lake City
 - Property tax and insurance
 - Currently, about 12% of the daily rate

What is the nursing home reimbursement methodology?

- Case Mix Component
 - Based on the level of care of patient need
 - Utah's nursing care program has 34 levels of care
 - Level of care is reported by nursing home
 - Differential adjustment for wages for rural versus urban facilities
 - Currently, about 60% of the daily rate

What is the occupancy rate?

What is the occupancy rate?

- Occupancy rate is made up of two components:
 - Total bed days (total number of beds * 365)
 - Total annual patient days
- Occupancy rate = patient days / bed days
 - 1,000,000 patient days / 1,500,000 bed days = 66.6%
 - Decrease in bed days = higher occupancy rate
- Average occupancy rate of 67.35% (June 2007)
- Some nursing homes may be running at 85% occupancy while others may run at 50% occupancy

Why is a low occupancy rate
harmful?

Why is a low occupancy rate harmful?

- Nursing homes need enough patients to:
 - Cover costs
 - Turn a profit
- Economies of scale
 - As the occupancy rate increases, the average cost to serve an additional patient will fall
 - A nursing home could:
 - Pass on lower costs to the state
 - Increase its profit margin
- Higher cost per patient means a higher cost to the state

What policies tend to promote
higher occupancy rates?

What policies tend to promote higher occupancy rates?

- Moratorium on Medicare only facility
 - Medicare patients are more lucrative
 - Medicare patients could be drawn away from facilities that serve Medicaid patients
 - June 2007 patient distribution by source:
 - 59% Medicaid
 - 24% private
 - 16% Medicare
 - 1% Veteran's Administration
 - Put in place in 2007
 - Sunsets on July 1, 2009

What policies tend to promote higher occupancy rates?

- Property component of nursing home reimbursement
 - 75% minimum occupancy
 - Reimbursed full FRV if at least 75% occupancy rate
 - If less than 75% occupancy rate, a nursing facility may not be reimbursed full FRV
 - Encourages a higher occupancy rate **up to 75%**

What policies tend to promote lower occupancy rates?

What policies tend to promote lower occupancy rates?

- The division may issue a Medicaid certification to a nursing care facility program that was previously a certified program but now resides in a new or renovated physical facility if the nursing care facility program meets all of the following:
 - Requirements were satisfied at the time of closure
 - Facility is located in same county or within a five-mile radius
 - There is less than three years between closing the old facility and opening the new or renovated facility (must inform DOH of intent within 90)
 - the provider gives written assurance that old facility can't operate as a certified program
 - **the bed capacity in the physical facility has not been expanded by more than 30% over the previous program's bed capacity**

What policies tend to promote lower occupancy rates?

- 30% exception:
 - Allows additional beds regardless of current occupancy rate
 - Nursing facility with 100 beds could have as many as 30 beds certified
 - Occupancy rate = patient days / bed days
 - More beds = more bed days = lower occupancy rate

What policies tend to promote lower occupancy rates?

- Property component of nursing home reimbursement
 - 75% minimum occupancy
 - Tends to promote an occupancy rate but only **up to 75%**
 - Occupancy rate = patient days / bed days
 - Increase in patient days = higher occupancy rate
 - Increase in patient days **NOT ALWAYS** = additional incentive
 - All other things being equal, a facility with a 75% occupancy rate would receive the same amount for the property component of nursing home reimbursement as a facility with an 80%, 90%, or 100% occupancy rate

What policies tend to promote lower occupancy rates?

- Property component of nursing home reimbursement
 - Bed banking
 - Allows nursing facilities to “take beds off-line”
 - Reduces insurance costs
 - Reduces number of beds in multi-bed ward
 - Can also be used to:
 - Artificially decrease number of bed days in the reimbursement formula
 - Artificially decrease the minimum occupancy rate
 - Increase a facility’s property component of nursing home reimbursement if occupancy rate is less than 75%

What policies tend to promote lower occupancy rates?

- Property component of nursing home reimbursement
 - Together, the 30% exception and bed banking dilute effects of lower occupancy rates
 - Example:
 - Nursing facility with 120 beds
 - Decides to expand to 180 beds (60 new beds)
 - First year, 36 beds are certified
 - Second year, planning to ask for 24 certified beds
 - Nursing facility banks 60 beds
 - » Increase reimbursement
 - Was there a need for more beds in the first place?

Potential Action for the Committee to Consider

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- Extend the moratorium on Medicare only facilities
 - Maintain current patient distribution (Medicaid, Medicare, Private)
 - Sunsets on July 1, 2009
- Increase the 75% minimum occupancy standard
 - Decrease reimbursement for some facilities
 - Rural nursing facilities are a concern
 - Could potentially shut down only facility in region
 - Consider different minimum occupancy standard for rural facilities

Potential Action for the Committee to Consider

- Eliminate or modify the 30% exception
 - Questions to answer:
 - Are more beds needed with an average occupancy rate of 67.35%?
 - When is it appropriate to add bed capacity?
 - § 26-18-503 Part 5 allows for additional beds “if there is insufficient bed capacity”
- Discontinue or reform bed banking

Potential Action for the Committee to Consider

- The only way to realize savings from the methods presented is to:
 - Change the reimbursement formula or
 - Reduce appropriations to reflect the projected savings that would result from these methods.
- Reduce the number of beds
 - Bed buy-back
 - Nursing facility bed conversion to assisted living units
 - Utah assisted living occupancy rate is 79.74% (Aug 2007)
 - Incentives for voluntary nursing facility bed closure

Questions?